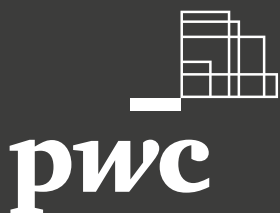




The Future of Reward



www.pwc.com/thefutureofreward



Introduction

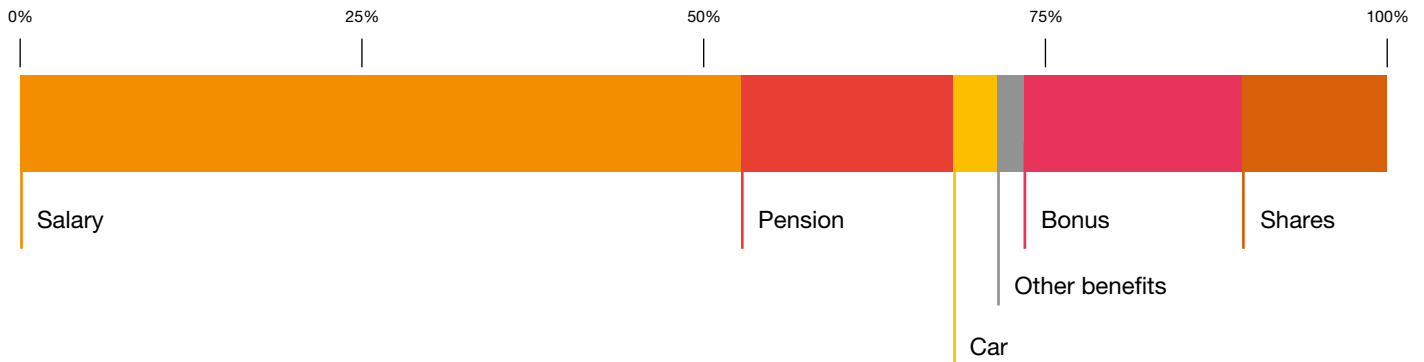
The approach to reward for most organisations still follows a traditional approach, consisting of a salary, an annual bonus for some, a pension and an element of flexibility within a core set of benefits, (e.g. holiday trading). Reward is something that is decided and gifted to employees.

As organisations adapt to virtual working and agile business models, we think the landscape is ripe for disruption. The reward function will need to learn from gig working, from start-ups and from customer experience to adapt to the changing needs of the workforce.

Through our conversations with clients and our research during the second half of 2020, we've examined how reward is already changing and what developments we will see in the future.

The key questions for the reward function

Traditional reward elements for a hypothetical employee



Shares

What can we learn from start-ups or private equity firm on equity?

Salary

Can we create new salary frameworks for the agile world?

Bonus

Do we need a new approach to detoxify performance management?

Job architecture

Are we too wedded to traditional pay frameworks?

Benefits

How can we go 'beyond' flex to reflect the trade off's and new priorities?

Five predicted areas of change



1. Performance and recognition

For many, the annual bonus has toxified performance management and the whole ratings and reward link is under renewed scrutiny. Organisations still want a mechanism to distribute bonuses and make pay decisions, and have historically used performance ratings, but this is getting harder and more complex in a virtual environment. The speed of change and the speed at which organisations are responding to dynamic circumstances highlights the need for more frequent check-ins, allowing line managers to provide feedback and monitor employee performance on a more regular basis. We predict a suite of incentives that no longer stick to the annual cycle – and a number of more personalised responses for high performers.

We are starting to see:

- Greater use of profit-share, team and project bonuses
- Peer to peer recognition (linked to technology)
- Intrapreneurship models for innovation
- More frequent check-ins, with a focus on wellbeing and development
- Better capability in line managers to talk about progression, development and outcomes

For some, the year end rating will remain where it is right for that organisation or team but it will no longer be one size fits all.

85%

of organisations operate recognition programmes outside of the annual reward structure

38%

are redefining ratings

59%

have already made some changes in 2020 including reducing number of ratings, and increasing frequency of check ins.

(Source: PwC survey of over 50 Heads of Reward)



2020 has shone a light on failings in our performance management approach and the need to improve capability.

Head of Reward from a UK financial services organisation





2. The virtual workforce

The office will never be the same. Many organisations are considering a ‘hybrid’ return of their employees, with individuals working 2-3 days in the office and the remainder at home. This creates new challenges across the whole employee experience but especially for reward – areas like supporting working at home, travel and commuting costs, working overseas and regional pay come into focus.

Many organisations have a regional pay model differentiating high and low cost work locations. Hybrid working blurs these lines, meaning we may see a shift towards national pay ranges – possibly with a flexible approach towards allowances and expenses like office-set up and travel. The historic car allowance may be deployed differently to be used for wellbeing or more occasional office travel.

Hybrid working opens up the idea of living in a different country to the work location. Some companies are already allowing employees to work overseas in certain approved locations for limited periods.

We expect this to continue, with growth in more global pay arrangements reflecting broader talent pools working agnostically.

Are you reviewing regional pay?

50%

No, it’s not on the agenda

28%

Yes, we have already started the process

17%

It may be reviewed in the next year

6%

It will definitely be reviewed in the next year

In a recent PwC survey of over 50 Heads of Reward, around half responded that they were reviewing the role of London Weighting / regional allowances as part of their pay policy.

In a recent survey of 170 companies on their future plans:

- 50% said they would have a high level of adoption for virtual working, meaning the majority of their workforce would work virtually
- 46% said they would have a medium level of adoption for virtual working, meaning their workforce would be split between a physical location and virtual working
- 4% no adoption

Case study: Working overseas within a framework.

One financial services company has an international workforce in the UK and employees have asked to spend time working in an overseas location. They are piloting a programme of allowing employees to spend four weeks before or after holidays in approved locations as part of their employee value proposition.



We are developing different work styles from fully workplace based to never in the office – but a lot of people will sit between these points – and we need a reward solution for these. It can’t be one size fits all anymore.

HRD of a major UK bank



3. Customisation of the Reward Deal – Beyond Flex

Many organisations are already prioritising a review of their total approach to reward and alignment with the employee value proposition.

The focus will be on greater choice around terms and conditions, days or hours worked and benefits. We see greater connection with other areas of HR – learning, resourcing, wellbeing, even sustainability. Individuals could be able to transfer their bonus into a learning budget for example, or trade benefits on a real-time basis, just as we can with a points card as consumers.

We like the idea of the Reward Passport – which gives individuals a draw-down account for areas like wellbeing spend, training and travel to the office for remote workers.

This offers a responsive and agile advancement to the rewards system which encourages thinking beyond just benefits and pay. A customised reward deal is all about ultimately better aligning the employee experience to personal needs and choice. One size fits all will no longer work to attract diverse talent.

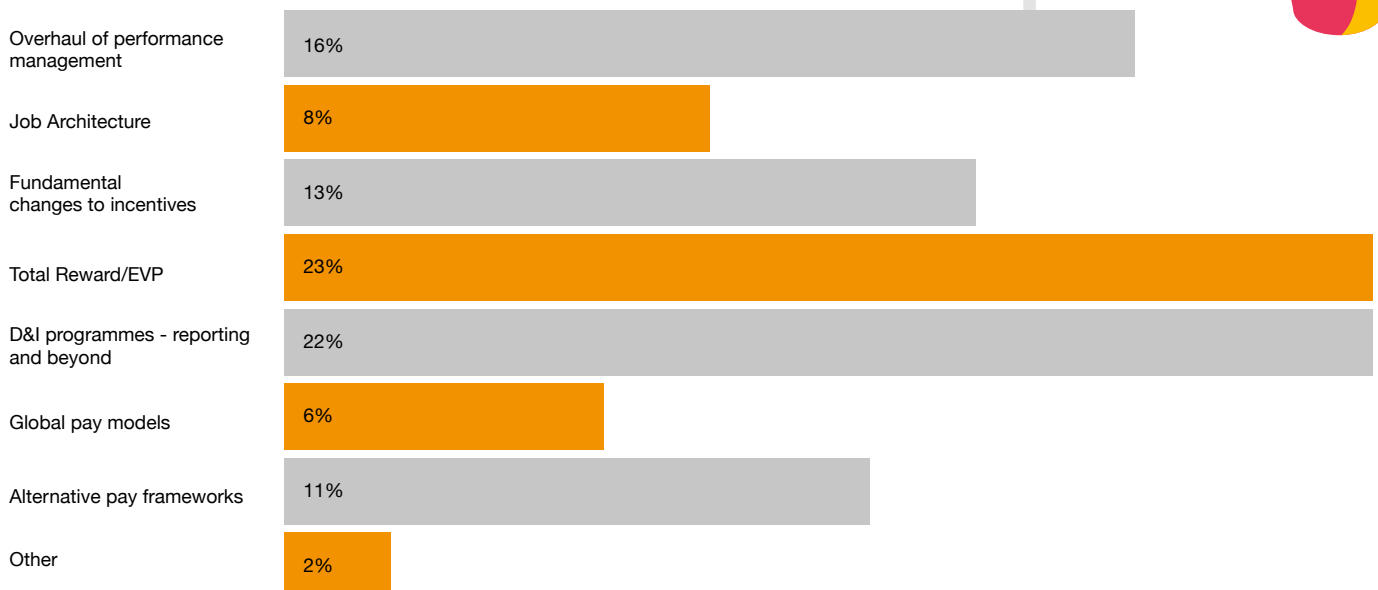


The holy grail for reward is a tech platform allowing individuals to see reward choices on a real time basis – making it happen is a lot harder.

FTSE 350 Energy company



What areas are on the horizon for bigger long-term changes to reward?





4. Fairness

Fairness in pay is an evolving and increasingly high-profile topic. Reward and Remuneration Committees are playing an ever greater role reacting to investor and regulatory pressure to better address pay fairness and the wider D&I agenda.

Reporting of pay gaps will no doubt continue, and organisations will start to look further at addressing imbalances in both representation and pay differentials. We will likely see more targeted pay reviews and measures to ensure the lived experience of employees reflects commitments to inclusion and fairness.

A company's reputation will increasingly be a litmus test for commitment and engagement. Organisations in the future will have an increased focus on how all of these touch points come together as part of the whole employee value proposition.

In a PwC survey of over 100 companies in August 2020, we found that:

66%

of companies are collecting ethnicity data

10%

have reported their ethnicity pay gap

50%

of almost all companies are planning to disclose in the next three years



5. Job architecture and agile reward

Innovation, agility and flexibility are now more important than ever for businesses to stay competitive. Reward can have a significant role to play in this, with a new focus on value and outputs. Grading structures and frameworks will likely continue but with more flexibility reflecting a more complex ecosystem of workers including giggers. A greater focus on outputs will also further liberate high performing employees from restrictive 'nine to five' thinking, putting greater emphasis on what they do, not where or when they do it.

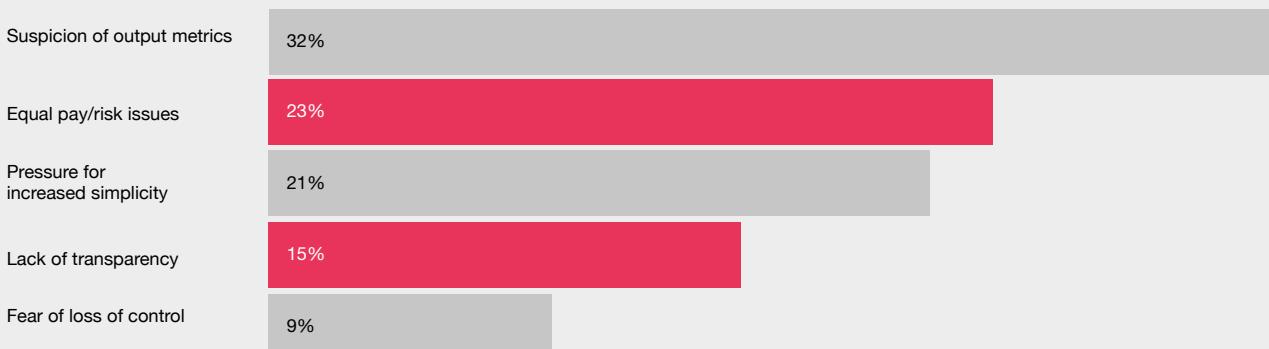
For companies looking to encourage entrepreneurial behaviours and mindsets, we could see:

- Greater use of output based pay linked to innovation
- Continuing to flatten the grading structure and pay bands
- Labour exchange type models where individuals move within an ecosystem of employers
- Ability to decide how many days a year are worked during the year
- Potential move towards flexible pay models that recognise hot skills



How can we meet the legal requirements of equal pay while allowing for greater flexibility and customisation?

We asked Heads of Reward for international organisations what is stopping them from introducing more flexible structures to the traditional job hierarchy and pay band model?



Actions to take now

There is a clear opportunity for the reward function to challenge tradition and reset for an evolving landscape. We've identified the top five actions for Heads of Reward and teams to focus on:

1

Assemble the data you have.

From employee engagement to benefits take-up, build a clear picture by demographics and location of where things are not delivering value.

4

Identify groups of employees where you can pilot different reward approaches.

Running pilots for ideas such as team bonuses or flexible pay adjustments can help you transform at speed and give you valuable insight to shape future strategy.

2

Listen to employees and the business.

Use insight from your people to ask how the employee experience can be reimagined. How does this align with post-pandemic planning and future strategy?

5

Bring the new story to life.

Engage employees with these changes by making it clear how this links to the whole employee value proposition and end-to-end experience.

3

Build a broad team of HR and beyond.

This isn't just an issue for the reward team and will take a concerted effort across the business. This will also help embed the changes across the business when it comes to implementation.



Contact us



Alastair Woods

Partner

+44 (0)7834 250 359
alastair.woods@pwc.com



Phillippa O'Connor

Partner

+44 (0)7740 968 597
phillippa.o.connor@pwc.com



Dean Farthing

Partner

+44 (0)7739 873 164
dean.farthing@pwc.com

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